

Colin Andersen

Opening statement for Justice Committee

Check Against Delivery

Tuesday, April 30, 8:30 am

My name is Colin Andersen. I have been Chief Executive Officer of the OPA since September 2008. I began my career in the public service in 1986, spending most of my time in the Ministry of Finance. I also held positions in the ministries of Health and Revenue as well as in Cabinet Office when each of the three parties was in power. Immediately prior to joining the OPA, I was Deputy Minister of Finance, where I oversaw the production of five provincial budgets.

I have a Master's Degree in economics from the University of Toronto and an Honours BA from the University of Calgary.

At the outset, I would like to say that I have been privileged to work with some stellar public servants, including the staff at the OPA. They are well-qualified and experienced professionals who take their responsibilities seriously and who have worked hard for Ontarians to cost-effectively secure their energy needs.

I also want to acknowledge the folks at Finance for whom this is a special week.

In my opening five minutes, I will present a very brief overview of the costs of moving the Oakville plant to Napanee. I can't do justice to the numbers in five minutes but I will be happy to answer your questions.

I also will not have time to read into the record my views about the relationship of the OPA with government and some of the issues around document disclosure, but they are included in the text of my remarks, which you have.

The OPA was created in early 2005 to provide expertise in three areas: conservation, procurement and planning.

The relocation of the Mississauga and Oakville plants are two of the most complex files that I have worked on. They entailed a complicated mix of legal, commercial, economic, community and electricity system issues, many of them not seen in this province before.

In the end, the relocations avoided expensive litigation and delivered plants that will meet Ontario's electricity needs for decades -- and at commercially reasonable prices.

Projects of this size and complexity have many moving parts and their costs evolve over time, and estimates are often very dependent on methodology, assumptions and judgment calls. These include assumptions about events that are far in the future, for example, the state of the economy in 2018, the price of gas in 2022 and industrial demand in southwestern Ontario in 2029.

They might also depend on site-specific issues that cannot be known until detailed engineering work is completed.

To some extent, it's like a Polaroid picture that takes 20 years to develop. Some parts become clear pretty quickly -- turbine costs and monies expended on sunk costs are good examples -- some come into focus later.

Clarity of language and common definitions are important to an accurate understanding of the components of costs. Sometimes the same exact words, such as "total cost" and "buckets of costs," have been used to describe different things.

For example, the phrase "total cost of relocation" has been used to describe:

- Net costs that cannot be repurposed or
- Cost to the taxpayer or
- All-in cost of relocation including site-specific and system costs and savings

I have also heard the words "buckets of costs" used to describe at least two different things:

- Sunk costs, lost profits and residual value; or, alternatively
- Site-specific costs, system costs and savings.
- These are very different things -- the former being the items under consideration in determining potential damages regarding a cancelled plant, the latter in determining the all-in costs of relocating a project.

I have also seen people shift from using a gross costs number to a net costs number, a nominal number to a net present value number, and monies paid to date, all in the same conversation.

As part of our due diligence, we have secured an independent, third party to review the costs of relocating the Oakville plant. Dealing with uncertainty is an inevitable part of the business of contracting for power. Uncertainty and the use of judgment are why experts with in-depth knowledge are used.

NERA Economic Consulting, a leading global economic and financial consulting firm, was engaged to do this work. The firm chose their own methodology for the review and their report is in the package distributed to you today.

On Page 8 of the NERA report, they provide a summary of costs that includes site-specific and system elements, such as transmission losses and the cost of buying replacement power. They also identify savings and their current calculation of the bottom line cost to move Oakville to Napanee is \$241 million. I have also included in your package a copy of the OPA's most recent estimate. Our figures today, using our own methodology, put that cost at \$310 million.

I guarantee that these numbers will continue to evolve and be debated as more information becomes available and assumptions, discount rates and planning scenarios are developed further.

To keep within the five-minute allotment, that concludes my opening presentation. I urge you to consider the written submission that follows in the text that has been distributed, and I look forward to your questions.

Relationship of OPA with government

Although the OPA has been described as an "arms-length" agency of government, "arms length" does not mean "disconnected."

The OPA fulfills its mandate primarily by carrying out Directives from the Minister of Energy. Since its inception, the OPA has received 64 Directives.

In principle, the government of the day sets the policy direction and the OPA implements those directions. In practice, it is an interactive and iterative process.

Government policy determines the elements of the power supply mix, and the types of power that are preferred, within the context of the government's social and environmental goals.

The OPA employs a talented and hard-working team of experts in power procurement and contract negotiation. They bargain hard for the people of Ontario, working to bring reliable power sources on-line as needed, where needed, and as cost-effectively as we can.

Negotiating or re-negotiating power procurement contracts is a complex and specialized field that in my experience is best left to the professionals at the OPA.

As CEO of the OPA, I have a close working relationship with the Deputy Minister of Energy, and part of my responsibility is to keep the Ministry well-informed on a range of issues. At any one point in time, we can have dozens of active files under discussion.

Negotiations for the relocation of both plants took place in the context of complex legal and commercial circumstances and under intense political and time pressures not of the OPA's making.

Multiple parties, including government representatives, played legitimate roles in the very complicated negotiations.

Document Disclosure

Finally, I would like to address the issue of disclosure of documents.

The OPA has always approached the issue of document disclosure with the best intentions and in good faith.

This was uncharted territory for us and we got thrown off course. Document disclosure on the scale and scope mandated by the committee is unprecedented in the experience of the OPA, but in the end, the documents requested were disclosed, including some that were commercially sensitive and legally privileged.

Looking back, I took too much comfort in being told that the ministry was using the narrow interpretation of search terms that was being conveyed to us and that the ministry legal branch was coordinating their search.

It was through my own persistent questioning, discussions with the Deputy along with on-going due diligence that we discovered that additional disclosure of documents was required. I also notified the Clerk and took steps to produce the information. Alerting the Ministry also led them to realize that they needed to make additional disclosures.

We learned as we went along, engaged outside experts and applied significant human and financial resources as we developed new protocols.

Included in your package is a letter to me from Coulter Osborne, former Integrity Commissioner of Ontario, whom I asked to comment on matters put before this committee.

As I have said in writing to this and other committees, document disclosure must be put in the context of other important principles including matters of commercial sensitivity, matters in litigation and arbitration and matters covered by solicitor-client privilege.

All three principles are at the foundation of our business dealings and all three principles serve to protect the public interest.